

*Telefonica*

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# Results

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January – June 2013

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Investor Relations  
Telefónica, S.A.



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# Highlights

- **Recovering organic growth in Q2**
  - ▶ Revenues +0.5% y-o-y in organic terms; -0.5% in H1
  - ▶ Revenues ex-regulation +2.1% y-o-y in organic terms; +1.0% in H1
  - ▶ OIBDA roughly stable: €4,854m in Q2 (-0.7% organic y-o-y) & €9,421m in H1 (-0.4%)
  - ▶ OIBDA margin flat in H1 (33.0%); small erosion in Q2 (-0.4 p.p. organic y-o-y) on record smartphones net adds
  - ▶ OpCF +3.4% organic y-o-y in H1
- **Reducing net debt by €10bn**
  - ▶ Net debt at €49.8bn in Jun-13 (2.40x ND/OIBDA)
  - ▶ €48.6bn (2.36x) net debt considering post-closing events; €10bn reduction since Jun-12
- **Strong FCF generation: €1.9bn in Q2**
- **EPS sequential acceleration: €0.25 in Q2; €0.46 in H1 (stable y-o-y)**
- **Crystallising value in Germany**
  - ▶ Announced transaction to enhance growth, diversification, scale and cash-flow without increasing leverage

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**Continued progress in our transformation strategy**

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# Financial Summary

€ in millions	H1 13			Q2 13		
	Reported	Reported y-o-y	Organic y-o-y	Reported	Reported y-o-y	Organic y-o-y
<b>Revenues</b>	28,563	(7.8%)	(0.5%)	14,421	(6.8%)	0.5%
<b>OIBDA</b>	9,421	(9.7%)	(0.4%)	4,854	(9.3%)	(0.7%)
<b>OIBDA Margin</b>	33.0%	(0.7 p.p.)	(0.0 p.p.)	33.7%	(0.9 p.p.)	(0.4 p.p.)
<b>OpCF (ex-spectrum)</b>	6,352	(6.3%)	3.4%	3,031	(11.0%)	(2.7%)
			<b>Underlying y-o-y</b>			<b>Underlying y-o-y</b>
<b>Net Income</b>	2,056	(0.9%)	(8.4%)	1,154	(13.1%)	(8.8%)
<b>EPS</b>	0.46	(0.7%)	(9.2%)	0.25	(13.8%)	(9.6%)

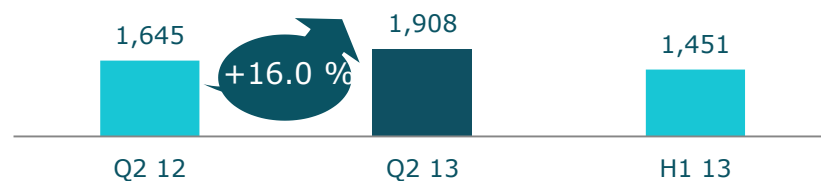
## Reported growth rates negatively impacted by:

- Forex effects dragging around 5.5 p.p. in revenues and OIBDA
- Changes in the perimeter (Atento)

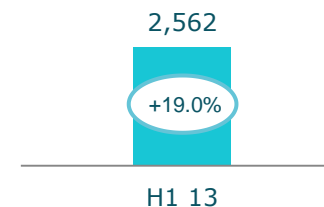
**H1 performance fully consistent with FY outlook; 2013 guidance reiterated**

# Strong cash flow generation

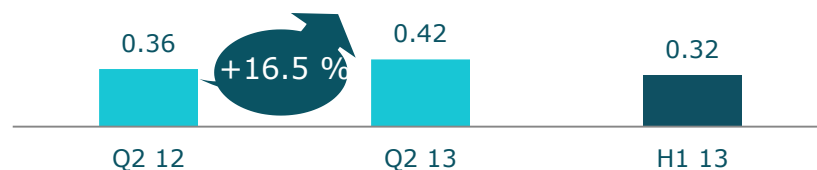
**FCF (€ in millions)**



**FCF (ex spectrum y-o-y)**



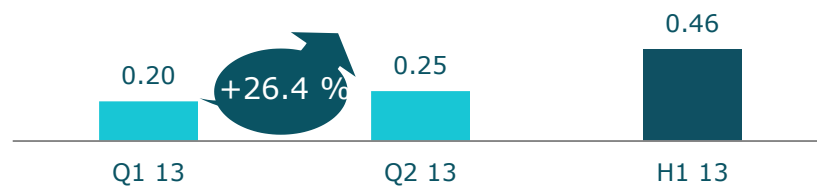
**FCF (€/share)**



## FCFS & EPS improving sequentially

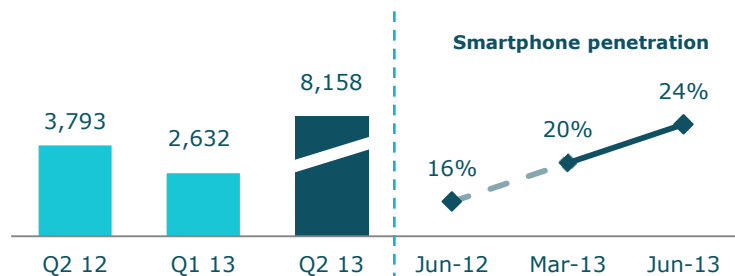
- Seasonal factors reducing FCF generation in H1 to become positive in H2
- LTE spectrum granted in major markets

**EPS (€/share)**



# Intense commercial activity boosted by smartphones

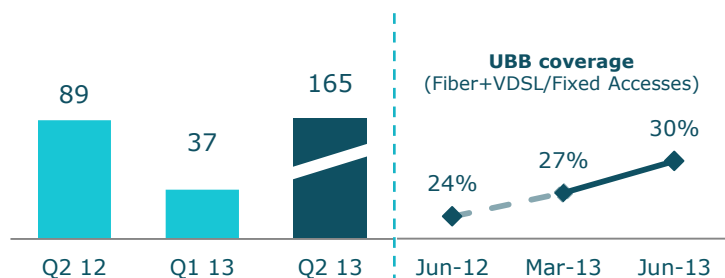
## Smartphone net adds ('000)



## Further push on high value and quality customers

- **Mobile contract, specially smartphones drives mobile growth**
- **Best ever quarterly smartphones net adds**, three fold Q1 13 figure
- Mobile **contract customers over total: 34%** (+2 p.p. y-o-y)
- **Highest mobile contract net adds in Q2 (2.1 m) since Q3 11**
- **Exploiting the smartphone penetration** on adoption of multiple devices and positioning to capture the mobile data opportunity

## FBB net adds ('000)



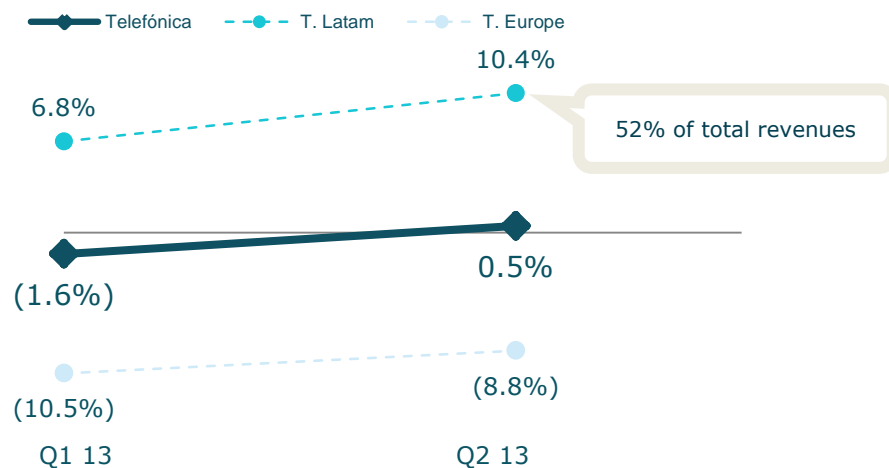
## Selective UBB roll out

- **Focused deployment of fiber**, mainly in Spain and Brazil
- **Progressive LTE launch** across markets
- UBB Connection rate 10%
- **Improved commercial traction in FBB** (accesses +2.0% y-o-y; +0.4 p.p. vs. Mar-13)
- **Limiting fixed accesses erosion** to -0.8% y-o-y as of Jun-13, as T. Latam posted positive net adds in Q2

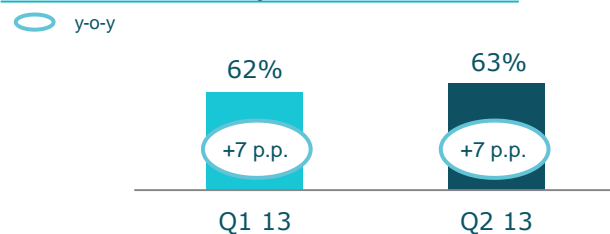
FBB and fixed accesses excluding the impact of the sale of the fixed business assets in the UK

# Recovering revenue growth

## Organic revenue (y-o-y)



## Non-SMS revenues/ Data Revenues



## Returning to organic growth pace

- **T. Latam boosting Telefónica growth** and accelerating y-o-y performance vs. Q1
- Enlarged contribution from digital services
- **Top line gradual recovery in T. Europe**
- Limiting H1 organic y-o-y decline to -0.5%
- Positive organic increase of 1.0% vs. H1 12 excluding regulation

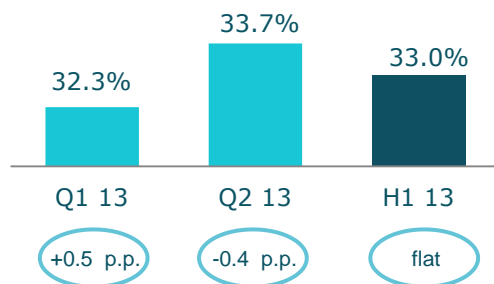
## Continued solid mobile data momentum

- **Fast non-SMS data sales increase** (+22.1% in Q2 y-o-y organic) with further data monetization opportunities
- **Increasing data revenue organic growth** to 9.8% y-o-y in Q2
- Mobile data accounts to 36% over MSR (+3 p.p. vs. H1 12)
- Right pricing strategy leveraging customer insight and differentiation

# Gaining efficiency & reinvesting in growth

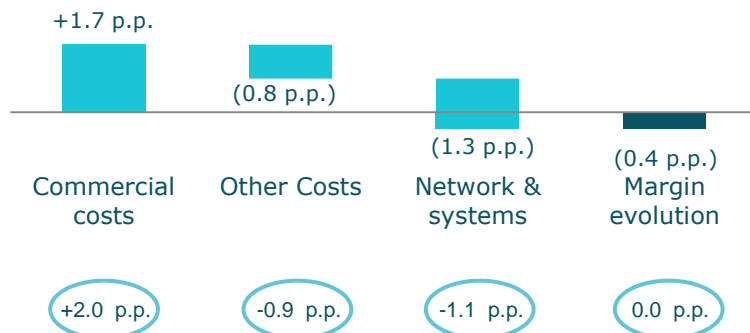
## OIBDA Margin

○ y-o-y organic



## Q2 13 Contribution to y-o-y organic

○ H1 13 contribution to y-o-y organic



## Cumulative OIBDA virtually stable (organic y-o-y)

- **Leveraging targeted efficiencies and savings on several initiatives** (H1 OpEx -0.1% y-o-y organic)
  - ▶ **Lower commercial expenses** (-8.9% H1 y-o-y organic) on new commercial model across Europe
  - ▶ Interconnection continue to decline on lower MTRs
- **Focus on data centric business** driving network & system costs
- **Q2 OIBDA (-0.7% y-o-y organic) reflecting higher commercial activity, mainly in Latam:**
  - ▶ Reinvesting in transformation towards a more sustainable model (smartphone base, improved quality and speed)
  - ▶ Capturing market growth opportunities



# T. Global Resources: Execution of priority projects

## Accelerating transformation towards a global model

- **Network and Operations:**
  - ▶ Evolving towards the best-in class fixed and mobile networks:
    - Foster **LTE sites deployment**: >1,600 in Brazil and >800 in Germany
    - Increasing **fiber coverage** (homes passed): 2.7m in Spain and 1.3m in Brazil as of Jun-13
    - **Network virtualization**: trial test in Brazil
- **IT:**
  - ▶ **Infrastructure consolidation** in progress:
    - **Launched projects for** migration and transforming IT infrastructure towards **Alcala Data Center**
  - ▶ **Simplification of Applications:**
    - Almost 300 applications already decommissioned till Jun-13
    - Less complexity, better time-to-market and resources optimisation
- **Devices:**
  - ▶ Achieving a **more balanced vendor map**
  - ▶ **First world FireFoxOS device** launched by Movistar España
  - ▶ **Strategic agreements/partnerships** with different industry players
- **Procurement:**
  - ▶ Further execution of **e2e Sourcing** model for most relevant global categories:
    - Over 11,000 processes awarded
    - **Savings from global procurement on track**

# T. Digital: Innovation at the forefront of our strategy

## Digital Services: reinforcing our position through partnerships and new products

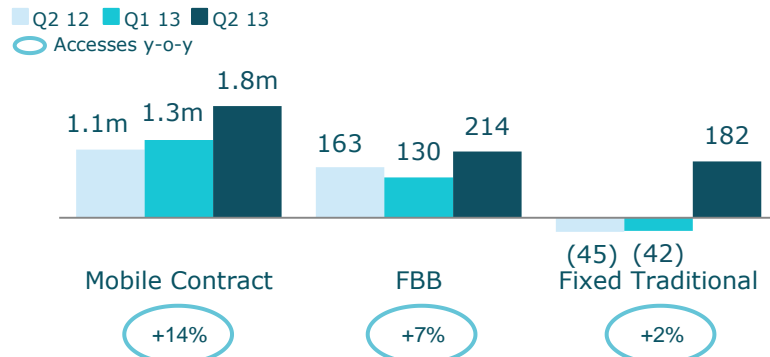
- **Financial Services:** Strong partnerships to build a credible mCommerce ecosystem in core markets
  - ▶ **Brazil** – MFS, a JV with Mastercard, launched “Zuum”, the first mobile payment service in Brazil giving unbanked people access to banking services through their mobile (<http://zuum.com.br/>)
  - ▶ **Spain** – First Bank & Telco alliance established in Europe (Caixabank and Santander) to jointly develop digital businesses
  - ▶ **Partnership with Samsung** with a network of merchants to enable customers to pay for goods via the phone bill
- **Security:** building new capabilities to enhance our portfolio and adapt to new security threats
  - ▶ **Launch of ElevenPaths**, a new company that underlines security as a pillar of Internet and service architecture (<http://www.elevenpaths.com/>)
- **M2M:** Expanding our portfolio to maintain our position as one of the top M2M players worldwide
  - ▶ Agreement with Dell to launch **Dell NetReady** an enhanced 3G connectivity solution for laptops and tablets

## Innovation to empower our core business

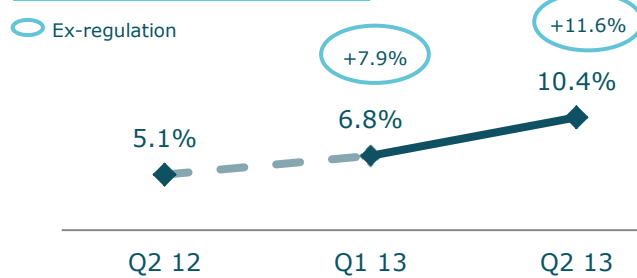
- **TuGO:** Commercial launch in UK (<http://www.youtube.com/watch?v=zaaUo-nn77c>)
- **Firefox:** 1st handset launched in Spain with a highly competitive device price (€69)

# T. Latam: Top line accelerating to double digit growth

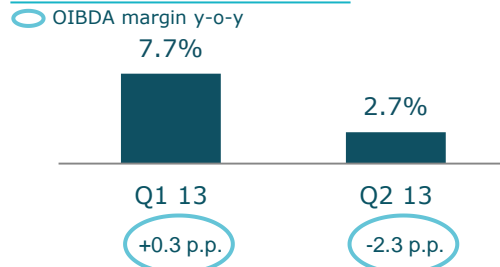
## Net Adds ('000)



## Revenues (organic y-o-y)



## OIBDA (organic y-o-y)



## Double digit top line growth

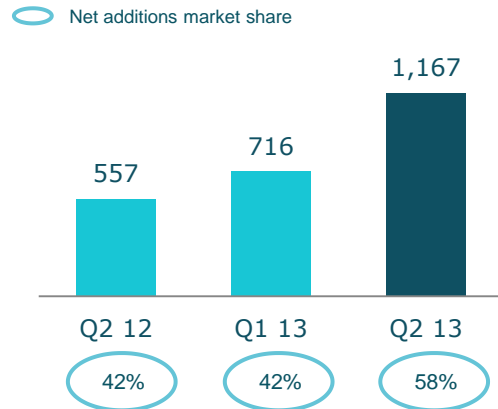
- **Strong acceleration on revenue growth** across countries and businesses
- **Data revenues remained as the main growth driver** (+21.2% organic in Q2 y-o-y) **amid higher contribution from fixed businesses** (+0.4% organic y-o-y; -1.4% in H1 13)

## Commercial activity momentum across services

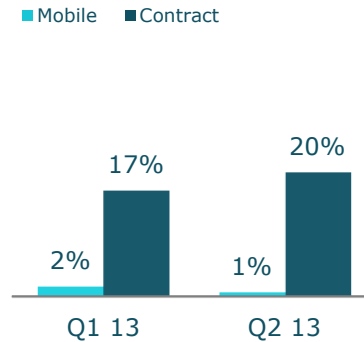
- **Contract mobile net additions growing by 64% y-o-y** in Q2
  - ▶ Best-ever quarterly contract gross adds
- **Enhancing regional leadership in contract led by smartphones uptake** (18% out of mobile accesses; +8 p.p.)
  - ▶ Record high on smartphone net adds (7m in Q2 13)
- **Commercial turnaround across fixed services**
- **Positive OIBDA y-o-y growth despite intense commercial activity**

# Brazil: Strong commercial momentum across the board

## Contract Mobile Net Adds ('000)



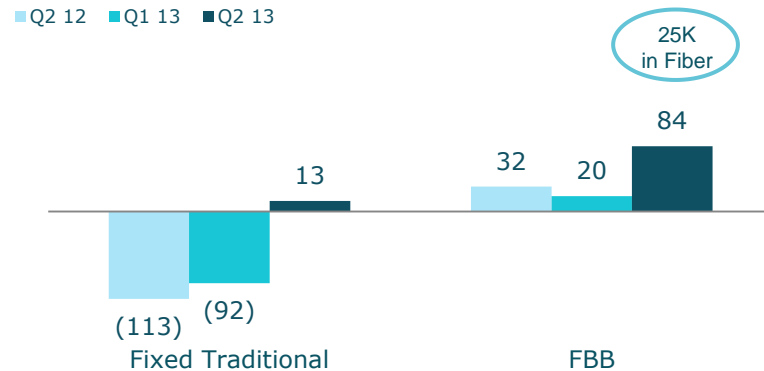
## Accesses (y-o-y)



## Record high in contract

- **Grabbing more than half of contract net adds share in Q2** to 37.8% of market share (+1.2 p.p. y-o-y)
- **Smartphones doubling y-o-y** to 17% of mobile accesses
- **4G services** already launched in 22 cities with VIVO paving the way on the back of superior quality and brand image
- **Top ups** remained strong (+12% y-o-y in Q2) despite strict disconnection criteria on prepaid customers

## Fixed Net Adds (millions)



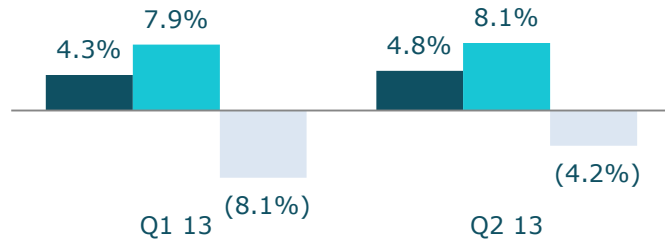
## Starting turnaround on fixed services

- **FBB net adds > x2 y-o-y** on segmented approach and enhanced quality (>80% net adds in Q2 13 with >= 4Mbps)
- **Fiber net adds** gaining traction on expanded uptake and coverage (1.4m homes passed as of Jun-13; targeting 1.8m homes passed as of Dec-13)
- **Integrated proposal boosting fixed traditional business** with positive nets adds after 10 quarters
- **Enhanced Pay TV offers:** DTH proposal re-launched in June

# Brazil: Commercial activity starting to flow into revenues

## Revenue growth ex-regulation (organic y-o-y)

■ Total ■ Outgoing Mobile ■ Fixed

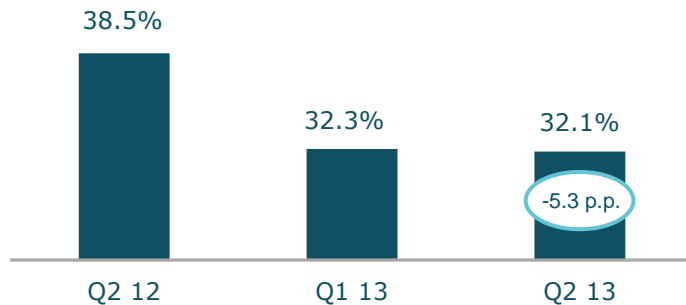


## Consistent revenue growth with improved mix

- **Outgoing mobile revenues accelerated in Q2** on the back of higher contribution of booming data
  - ▶ Non-SMS data revenues accelerating y-o-y growth to 26.8% organic in Q2 (+23.2% in Q1 y-o-y)
- **Improved trend on fixed revenues** across services

## OIBDA Margin

○ Organic y-o-y



## OIBDA margin impacted by higher commercial activity

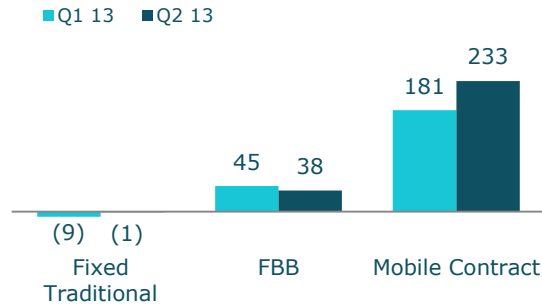
- **OIBDA margin** erosion affected by positive one offs in Q2 12 (-2.1 p.p. y-o-y) and higher commercial traction
  - ▶ Net adds mobile contract x2 vs Q2 12
  - ▶ Net adds FBB x2.6 vs Q2 12
  - ▶ Net adds fixed traditional +13k vs. -113k in Q2 12
- **Commercial activity** focused on high value segments
- **Corporate restructuring already approved;** a simplified structure to capture additional synergies onwards

# T. Latam: Widespread revenue acceleration on outstanding commercial activity (I/II)

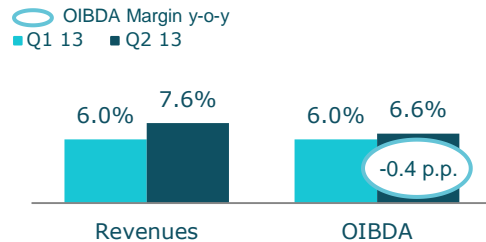
○ % out of Group revenues

## Peru 4.3%

### Net Adds ('000)



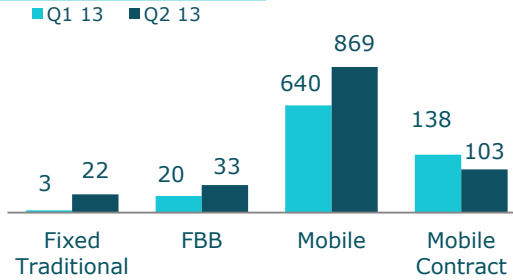
### Revenues & OIBDA (Organic y-o-y)



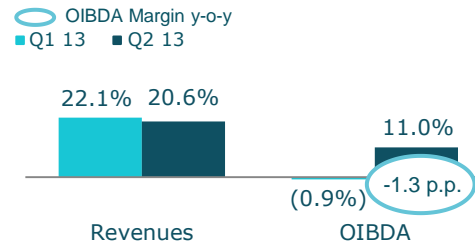
- Consolidating revenue & OIBDA trend, while maintaining commercial activity momentum (record high in Q2 contract gross adds)

## Argentina 6.4%

### Net Adds ('000)



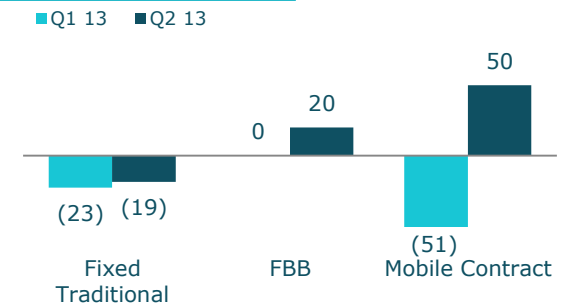
### Revenues & OIBDA (Organic y-o-y)



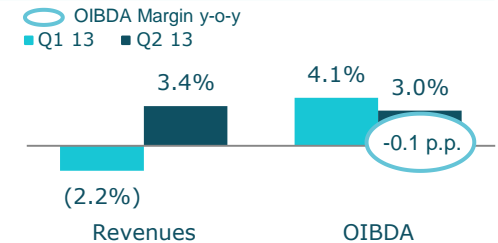
- Strong total net adds (4x y-o-y)
- Double digit revenue growth
- Higher commercial activity and inflation driven costs dragging OIBDA margin y-o-y

## Chile 4.4%

### Net Adds ('000)



### Revenues & OIBDA (Organic y-o-y)

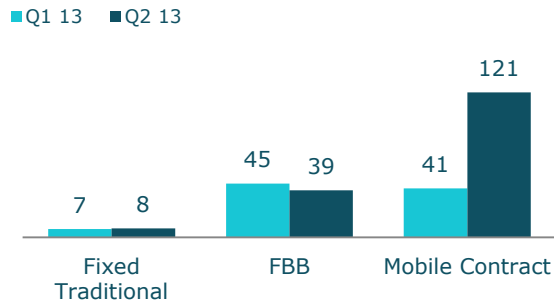


- Strong recovery in revenue y-o-y trend
- OIBDA margin dragged by solid commercial activity on the back of new commercial proposals launched this quarter

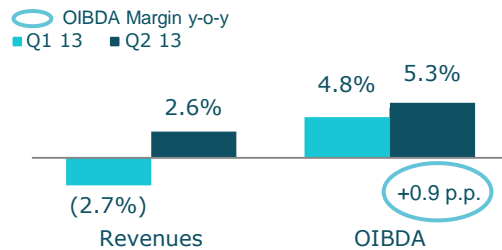
# T. Latam: Widespread revenue acceleration on outstanding commercial activity (II/II)

## Colombia 3.0%

Net Adds ('000)



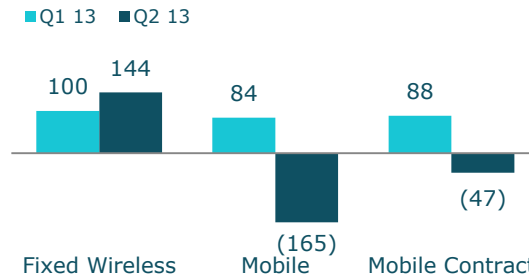
Revenues & OIBDA (Organic y-o-y)



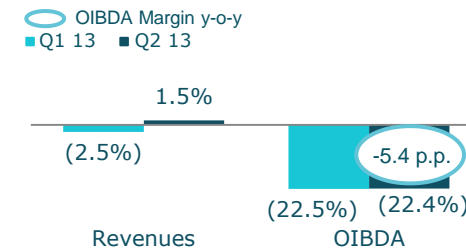
- **Strong commercial activity across services** (Best-ever Q2 contract gross adds)
- **Revenue acceleration** while continuing to improve profitability

## Mexico 2.8%

Net Adds ('000)



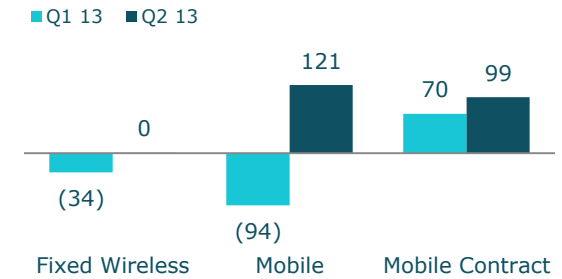
Revenues & OIBDA (Organic y-o-y)



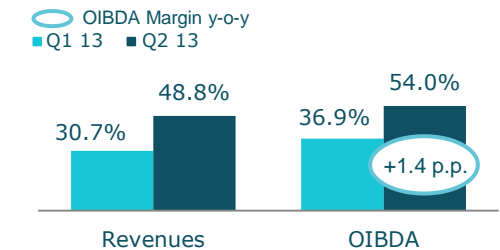
- **“Telecommunications Law”** already signed, to provide higher dynamism on the sector
- **Ongoing operational transformation:** new “Unlimited Plans” launched with a strong uptake

## Venezuela 5.3%

Net Adds ('000)



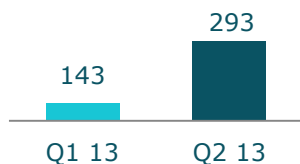
Revenues & OIBDA (Organic y-o-y)



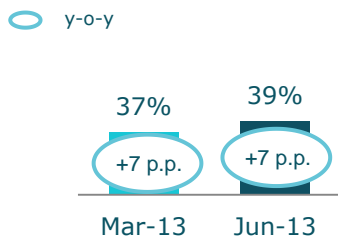
- **Impressive operational & financial performance**
- **Solid performance of new revenue streams:** smartphone penetration reaching 37% and Pay TV accesses almost doubling y-o-y

# T. Europe: Executing transformation for a more sustainable model

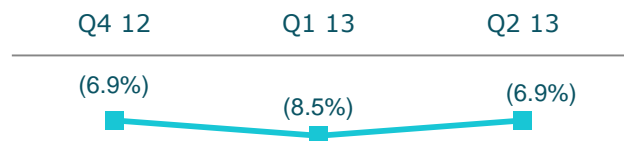
## Contract net adds ('000)



## Smartphone penetration

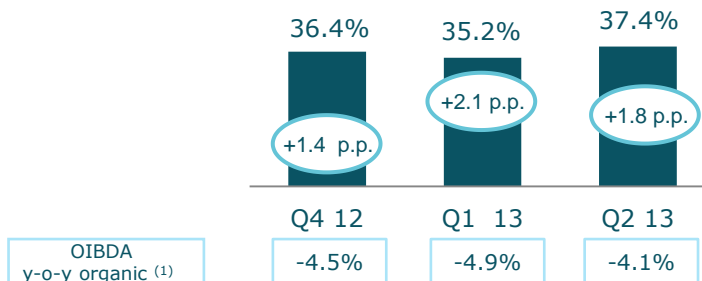


## Revenues (ex-regulation y-o-y organic)



## OIBDA margin

○ y-o-y organic



OIBDA y-o-y organic (1)

Quarter	OIBDA y-o-y organic (1) (%)
Q4 12	-4.5%
Q1 13	-4.9%
Q2 13	-4.1%

Excluding disconnections in Czech Republic in Q1 13

(1) Excluding positive impact of the change of scheme in the UK pension plan in Q4 12

## New common commercial approach improving momentum

- **Acceleration in mobile contract net adds amid increasing competition**
  - ▶ Customers appreciate simple, transparent and value for money portfolio
  - ▶ Subsidy reduction compatible with innovative handsets propositions
  - ▶ Churn improvement across markets
- **Successful mobile data monetisation** fostered by data-centric tariffs
  - ▶ +10.7% H1 13 y-o-y organic in Non-SMS revenue
  - ▶ Prepared to capture growth of high-speed data services

## Transforming to increase profitability

- **Gradual improvement in revenue trend**
- Third consecutive quarter of **OIBDA margin y-o-y expansion**
  - ▶ Cost discipline and simplification across the board
  - ▶ Optimising resources allocation
- **Investing in future growth: LTE and fiber**
  - ▶ Network sharing looking to make markets more rational
- **Stable OpCF y-o-y** (-0.5% H1 13 y-o-y organic)



# Spain: Leading the convergent market

## Movistar Fusión Customers ('000)

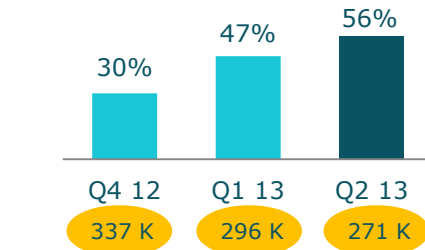
Including Fusión Cero



## Movistar Fusión

% New customers & upselling/Gross adds

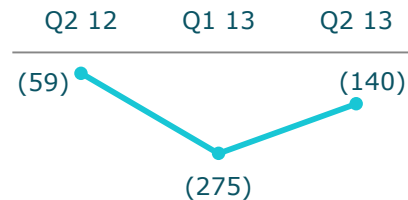
Gross adds of new & upselling customers



## Movistar Fusión further strengthens market positioning

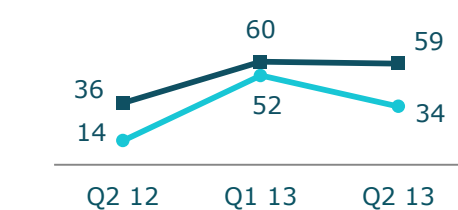
- **Convergence: the key market trend**
- **Customer mix continues to improve** (new & upselling customers)
- **Steady fiber up-take** (431k customer in Jun-13; x2 y-o-y)
- **Ongoing mobile add-ons increase**
- **>70% of Fusión gross adds in Q2 opting for high value packages**

## Mobile contract net adds ('000)



## FBB and Fiber net adds ('000)

Fiber FBB

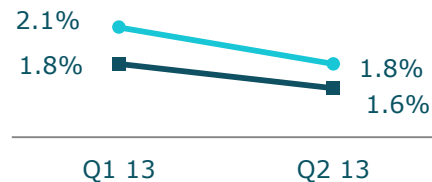


## Successful new mobile tariffs drive trading improvement

- **Market dynamics more rational:** Focus on tariffs vs handset subsidies
- **Contract mobile improved in Q2** on tariffs launched in April
  - ▶ Higher migrations from prepay
  - ▶ Capturing market growth
  - ▶ Churn reduction
- **Contract portability** still impacted by MVNO's aggressive convergent offers

## Churn

Contract mobile FBB

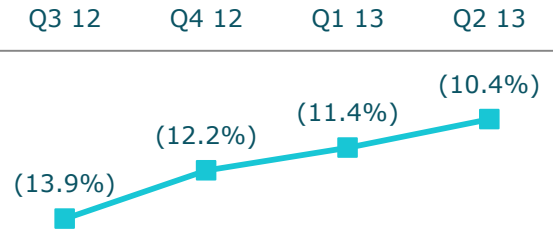


## Maintained focus on top quality and customer satisfaction

- **Competitive new portfolio addressing all segments**
- **Sustained increase in customer satisfaction and loyalty**
  - ▶ Higher quality base (convergent, contract mobile, fiber)
  - ▶ Claims -74% y-o-y in Q2 (-69% in Q1)

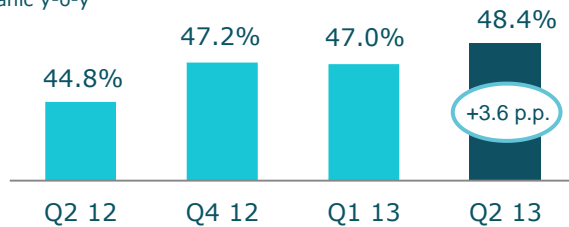
# Spain: Massive improvement in operating leverage

## Revenue ex-handset sales (organic y-o-y)



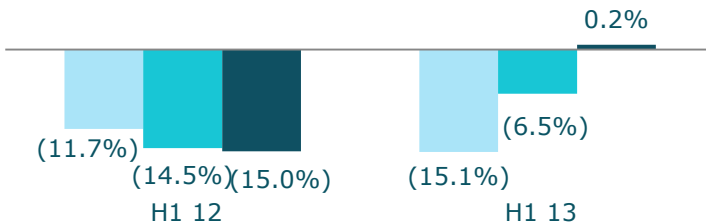
## OIBDA Margin

○ organic y-o-y



## Revenue, OIBDA, OpCF (organic y-o-y)

■ Rev ■ OIBDA ■ OpCF



## Revenue y-o-y trends improve gradually

- Increased new revenue stream from Fusión
- Better mobile access performance in Q2
- Mobile hardware sales y-o-y drop easing (-51.6% in Q2, vs -67.4% in Q1) following new commercial model (Mar-12)
- Positive impact from loyalty program on MSR y-o-y evolution fading off

## Transformation leads to sound OIBDA margin expansion

- Leading profitability in Europe despite a challenging environment
- Recurrent savings from new business model:
  - ▶ Subsidy removal
  - ▶ Personnel reduction and temporal suspension of Pension Plan contribution
  - ▶ Churn and customer satisfaction improvement
- Progressing on new savings measures:
  - ▶ Insourcing
  - ▶ Deeper simplification (call center, distribution channel)

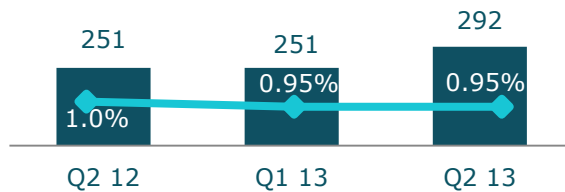
## Strong OpCF of € 2.5 bn up to June-13

- Benchmark OpCF margin
- CapEx reduction (-28.5% y-o-y organic in H1 13) reflects efficiencies from transformed operating model
- Accelerating fiber roll-out (2.7 m households by Jun-13)

# UK: Strong momentum while transforming the business

## Contract net adds ('000)

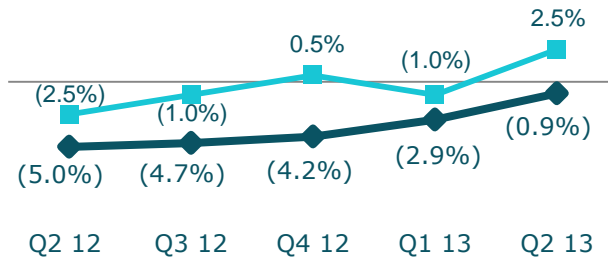
■ Contract Churn



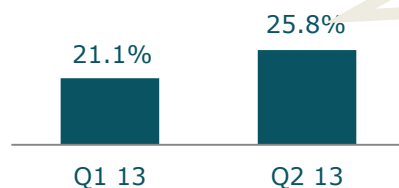
Market leading contract churn

## Revenues (ex-regulation y-o-y)

■ Revenues ■ MSR



## OIBDA margin



- New commercial model explains 2.3 p.p. of margin
- Capital gain (€73 m) & restructuring (€40 m): 2.0 p.p.

Financials y-o-y change are in local currency

## Continued strong trading momentum

- Contract base up 9% driving mobile base (+3% y-o-y)
- High smartphone base penetration of 48% (+5 p.p. y-o-y)
- “O2 Refresh” encouraging results:
  - ▶ 20% of contract commercial activity opt for Refresh in Q2. Only available for high-end devices in direct channel
  - ▶ Towards a more sustainable business model: Savings re-invested in increasing weight of direct channel
- Launch of LTE services this summer



## Back to revenue growth (ex-regulation)

- **MSR trend improved**
  - ▶ Strong contract base growth
  - ▶ RPI increase from Feb 28th impacting in the quarter
- Handset revenues reflect the positive impact of the new tariff, resulting in full recognition of handset sale upfront, with 5.5 p.p. contribution to revenue growth
- Disposal of fixed business from May

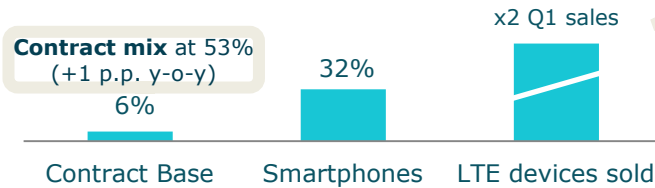
## OIBDA benefited by new commercial model

- Outsourcing customer service (2,360 FTE's), focusing on on-line channel to transform towards a leading digital telco
- Deploying our network sharing agreement

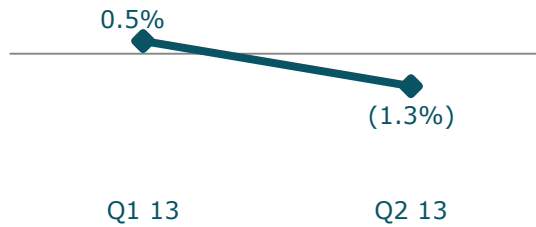
# Germany: transition to data-centric market

## Market moving towards data

y-o-y performance

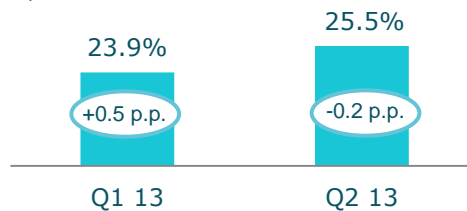


## MSR (ex-MTR y-o-y)



## OIBDA Margin

y-o-y



## Successful retention of high-value customer base

O<sub>2</sub> Blue

- **New O2 Blue Offers indicators:**
  - ▶ Accelerating smartphone penetration to 29% (+6 p.p. y-o-y)
  - ▶ Nearly all shipments in Q2 13 are smartphones
  - ▶ Tariff renewals within our customer base increased by 20% y-o-y
- **LTE network deployment in all high speed metropolitan areas already completed**
- **Increased traction of VDSL demand:** In VDSL-available regions 28% of gross adds take up

## Increased pressure in revenues

- **MSR deceleration on:**
  - ▶ Tariff renewals based on unlimited voice & SMS, with differential speed on data offers
  - ▶ Lower SMS volumes affecting incoming revenues
  - ▶ Commercial activity based on retention
- **Revenue pressure mitigated by improving data metrics:**
  - ▶ Non-SMS data accelerated growth to 24.6% in Q2 (65% of data revenues; +10 p.p. y-o-y)
  - ▶ Data revenues 48% of MSR (+4 p.p. y-o-y)
  - ▶ Evidences of increased data usage after migration to LTE

## OIBDA reflects accelerated transition to data based services

- **Revenue pressure offset by commercial and non-commercial efficiency measures**
- Keeping OIBDA margin stable despite efforts towards transformation

# Creating a Leading Digital Telco in Germany (I)

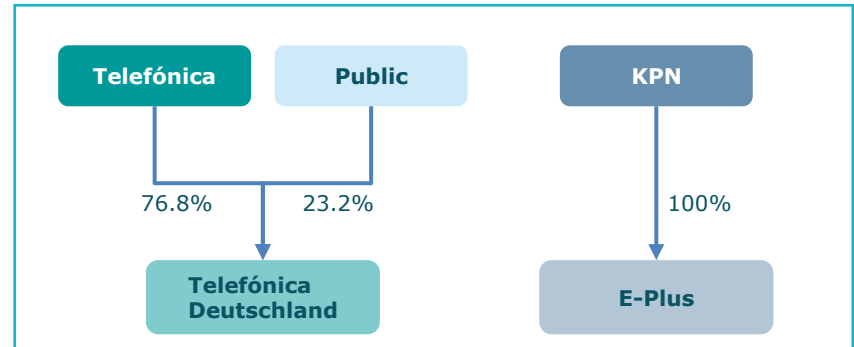
## Transaction Summary

**Total consideration of €5 Bn in cash and a 17.6% stake**

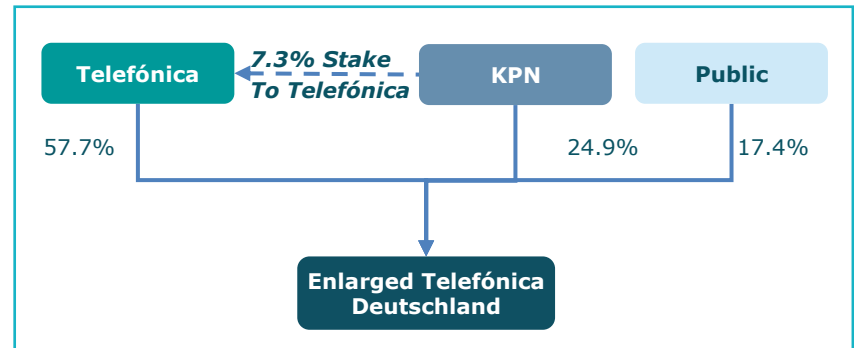
### Two Step Structure

- 1** Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in the enlarged Telefónica Deutschland
  - i. €3.70bn of cash, financed through a rights issue fully underwritten by Telefónica and a group of banks
  - ii. 24.9% stake in the enlarged Telefónica Deutschland (after capital increase)
  
- 2** Telefónica subsequently to acquire a 7.3% stake of the enlarged Telefónica Deutschland from KPN for €1.30bn, post-transaction, in order to maintain a 65% ownership in the enlarged Telefónica Deutschland

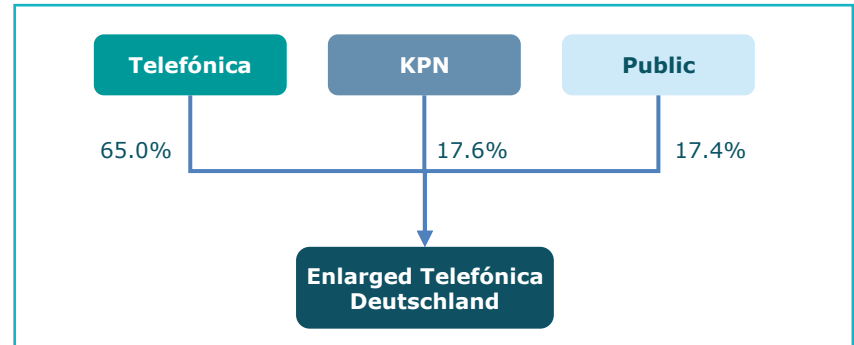
### Pre-Transaction Structure



### Intermediate structure



### Final Ownership Structure



# Creating a Leading Digital Telco in Germany (II)

## Combining a Bright Past with a Brighter Future

- A leading player with a combined customer base of 43m, 42% in contract
- Strong scale benefits with combined mobile revenue market share of 32%
- Driving mobile market growth in Germany since 2010:
  - ▶ +2.2pp in contract customer share
  - ▶ +5.8pp in prepaid customer share
- Strong capabilities in mobile data, LTE

## Value Crystallization Through Significant Synergies

€5.0–5.5bn

- NPV of synergies of €5.0–5.5bn, net of integration costs
  - ▶ Net savings from year 2
  - ▶ Annual run-rate synergies of approx. €800 m; 75% of run-rate synergies by year 4
- Incremental value from additional revenues, financial and tax synergies
- Highly experienced management team with a proven track record of integration

## Enhanced Profitability & FCF in Germany

- Improved profitability and enhanced cash flow generation
- Stronger competitive position from increased scale

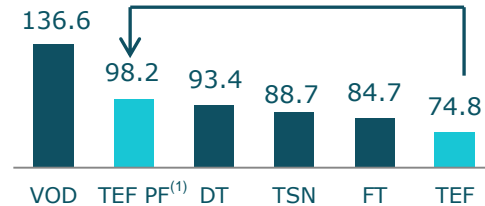
## Creating a Superior Customer Experience

- Customers to benefit from the best high speed mobile and fixed experience from a single LTE network and access to future-proof DT NGA network
- Strong multi-brand portfolio across segments
- Offering ICT / cloud solutions for business customers
- Best distribution channel and outstanding customer service
- Ready for convergence through cross-selling / up-selling opportunities
- Leveraging Telefónica's global capabilities: Digital innovation, Scale,...

# Creating a Leading Digital Telco in Germany (III)

## Improving Scale & Unmatched Diversification

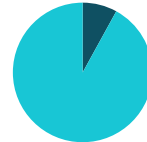
**Second EU operator by mobile customers 2012 (m)**



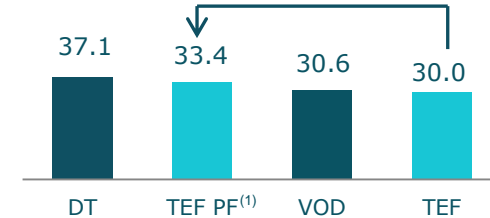
**Telefónica Standalone, 2012**

Total Revenues: €62bn

Germany  
8%



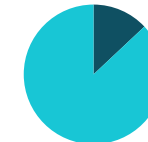
**Second EU operator by revenues 2012 (€bn)**



**Pro-forma Telefónica (Pre-Synergies), 2012**

Total Revenues: €66bn

Germany  
13%



## Financing without Increasing Leverage

- Total financing required of €4.14bn
  - ▶ 50-65% Hybrid, 100% equity under IFRS/ 50% equity for credit rating agencies
  - ▶ 20-30% Mandatory Convertible, 90% treated as equity under IFRS & credit rating agencies
  - ▶ 10-20% Incremental debt, in addition to the debt component of the hybrid bond

## Value Creation for Telefónica Shareholders

- Unlocks significant value for Telefónica shareholders
- Investing in future growth
- Reinforced geographical diversification, increasing exposure to an attractive market
- Positive impact on Telefónica's cash flow generation profile
- EPS and FCF accretive from year 1<sup>(2)</sup>
- Credit friendly financing structure, allowing leverage ratios to improve

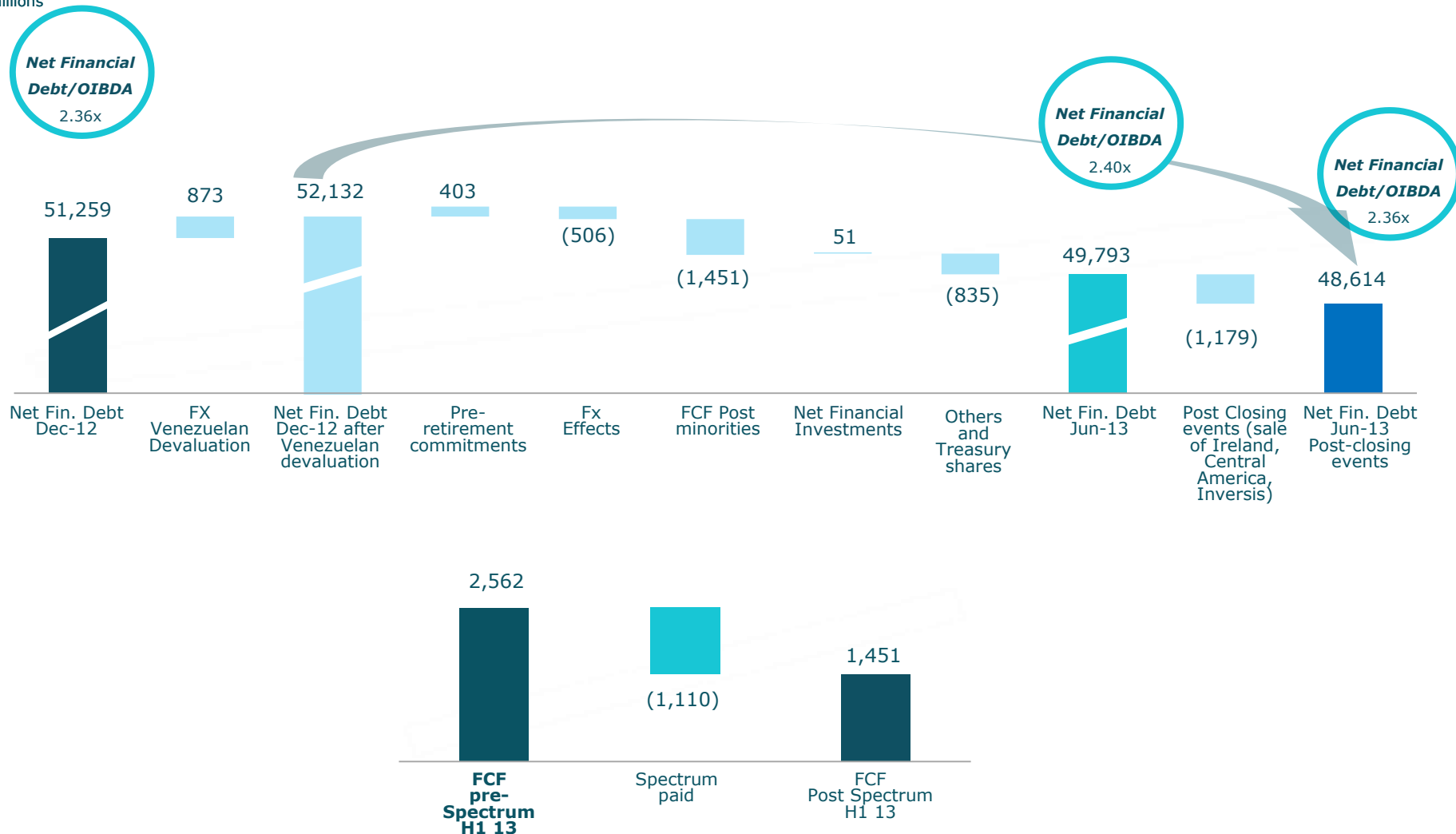
1. Proforma

2. Based on run-rate synergies before integration costs

# Deleveraging towards target on debt reduction

## Net Financial Debt

€ in millions

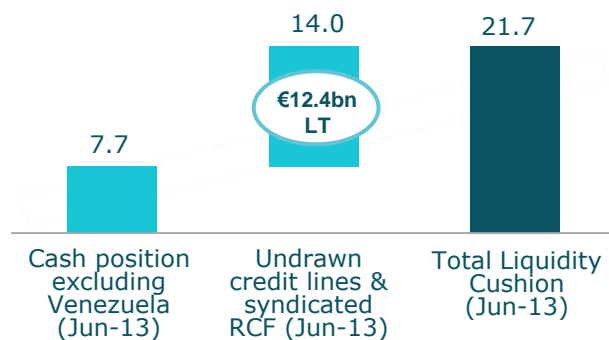




# Over 2 years maturities covered on strengthened liquidity

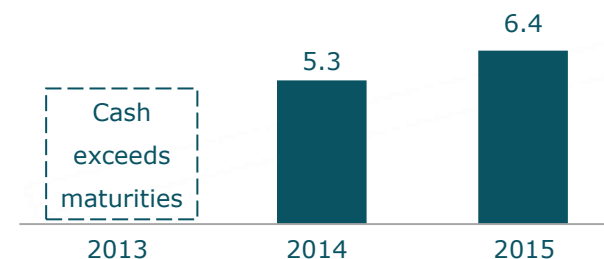
## €21.7 bn liquidity increasing (+€0.3 bn vs. Mar-13)

€ in billions



## Smooth maturity profile net debt maturities (Jun-13)

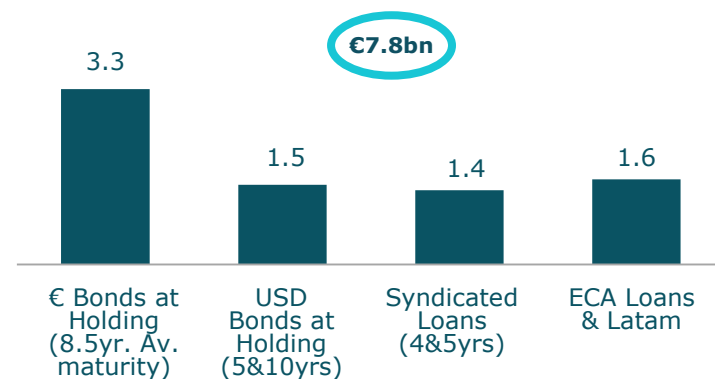
€ in billions



## Proactive diversified 2013 YTD financing

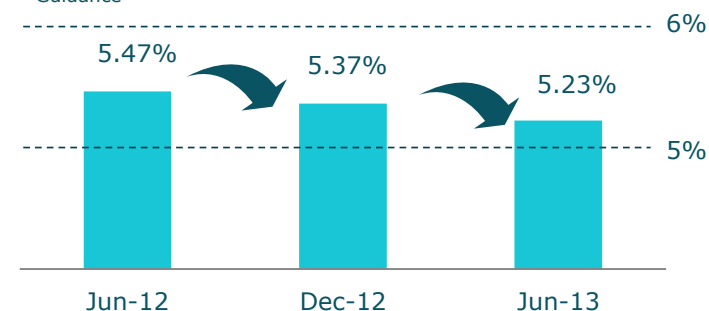
€ in billions

○ Refinancing YTD



## Decreasing effective interest cost (12 month rolling)

--- Guidance



# Closing remarks

- Recovering organic revenue growth in Q2
  - ▶ T. Latam, mobile data and T. Digital continued driving growth
  - ▶ Further push on commercial activity in every category
  - ▶ Record high smartphone quarterly net adds
- Organic OIBDA virtually flat y-o-y in H1 on strong transformation
  - ▶ Executing transformation to gain efficiency all across the board
  - ▶ Reinvesting efficiency gains in commercial activity boosting growth
- Very strong FCF generation in Q2
- Ongoing deleverage, 10 bn euros since Jun-12
- Full year outlook reiterated
- Crystalizing value in Germany
  - ▶ Announced transaction to enhance growth, diversification, scale and cash-flow without increasing leverage

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**Continued progress in our transformation strategy**

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# Telefonica

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**Organic growth / 2013 guidance:** Assumes constant exchange rates as of 2012 (average Fx in 2012), excludes hyperinflationary accounting in Venezuela and considers constant perimeter of consolidation. In OIBDA and OI terms excludes write-downs, capital gains/losses from companies' disposals, tower sales and material non-recurring impacts. CapEx excludes spectrum acquisition. 2012 adjusted bases exclude: capital gains/losses from companies' disposals (capital gains/losses from China Unicom, Atento, Hispasat and Rumbo), impairment of T. Ireland, homogeneous perimeter (2012 adjusted figures exclude results of Atento, Rumbo and small changes in T. Digital perimeter and homogeneous accounting treatment of Joint Ventures) tower sales and change in contractual commercial model for contract handsets in Chile.

**Accesses:** Mobile net additions exclude the disconnection of inactive customers in C. Republic (Q1 13). Fixed telephony accesses and broadband exclude the disposal of fixed business assets in UK.